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Procurement Readiness, Advance Action, and Retroactive Financing

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Senior Procurement Specialist

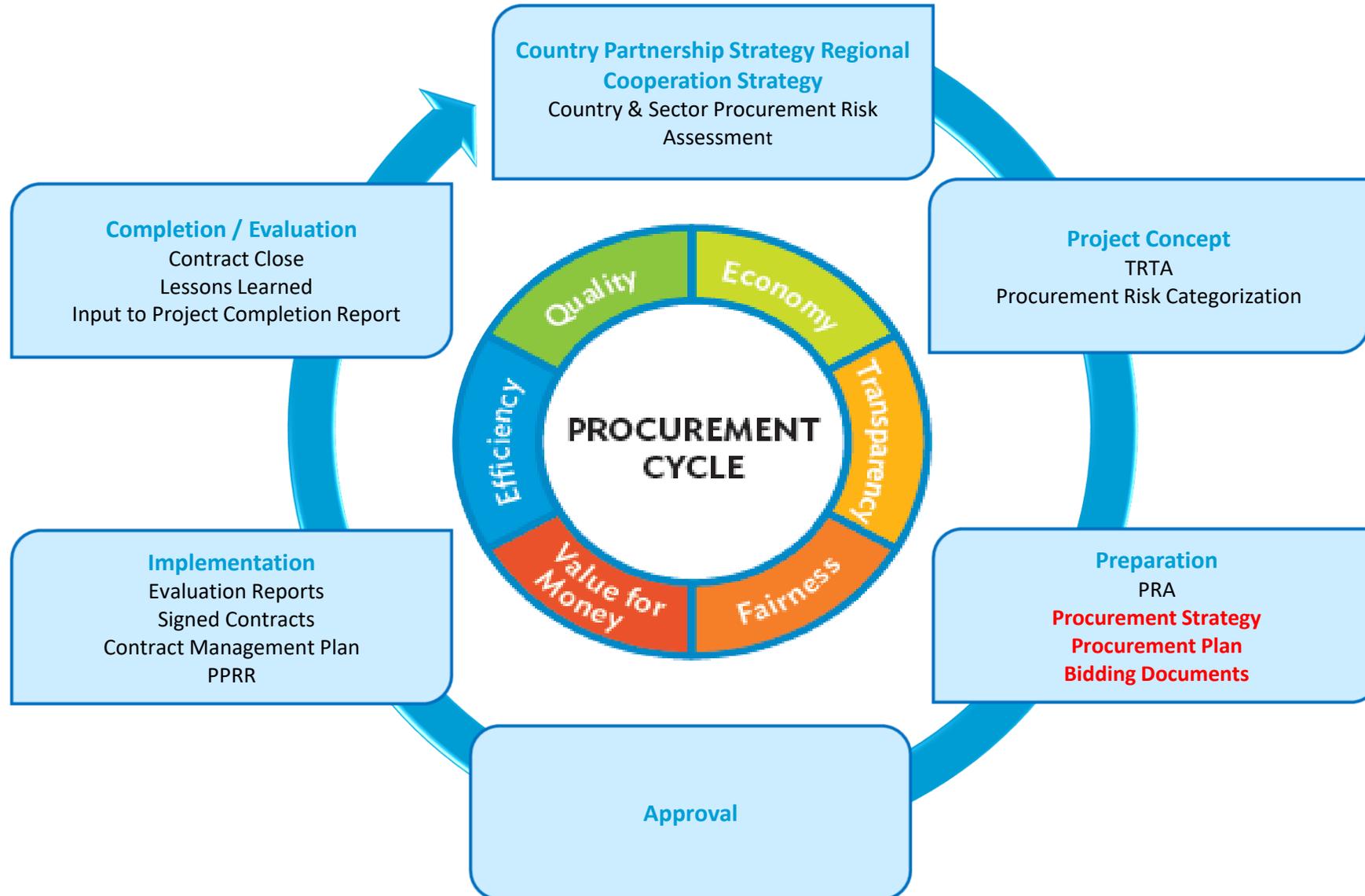
Procurement Division 2

Procurement, Portfolio, and Financial Management

Department



Project and Procurement Cycle



Project Advance Action and Procurement

Government
Project Planning

Preparation Year 1

Preparation Year 2

1st Year Implementation

Budget for
Land
Acquisition

Budget for
1st year
implementation

Budget for
2nd year
implementation

Government
Budget Planning

Budget for Project
Management/Impleme
ntation Unit

Civil
Works

Feasibility Study

DED & bidding documents

Bid Evaluation , winner
selection, negotiation

Contract Awards and Management*

Land
Acquisition

LA
Planning

LA Preparation &
Land Determination

Implementation including
compensation

Result

Consulting
Services

TOR and
advertisement
preparation

Submission 1:
shortlisting,
cost
estimates,
draft RFP

Submission 2:
Technical
Proposal
Evaluation

Submission 3:
Financial
Proposal
Evaluation

Contract Awards and Management*

**Contract Awards and Management may commence during Preparation year if retroactive financing used*

Advance Action



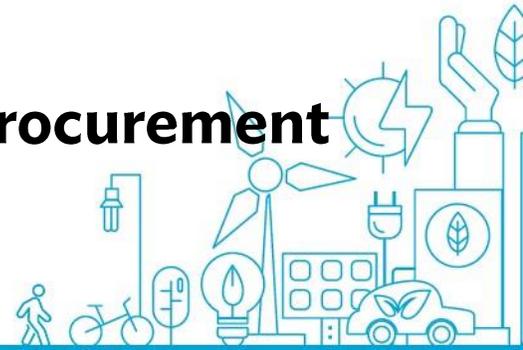
Benefits of higher procurement readiness

- **On-time commencement of project**
- **Efficient use of resources from the beginning of the project**
- **Better project performance rating**
- **On-time delivery of the project outcomes within the project period**
- **Less risk of project cost overrun**
- **No extra commitment change**



Common constraints to conduct Advance Contracting

- **Lack of or unclarity in the national regulation if the EA/IA can start the procurement before securing the funding**
- **Lack of funding to prepare the employer's requirements, technical specification, detailed engineering design**
- **Lack of technical expertise to prepare the technical documents**
- **Delay in inclusion of a pipeline project in the national budget**
- **Insufficient counterpart budget approved for the project preparation and the first-year implementation**
- **PMU/PIU cannot be established or not yet authorized to make a procurement action**



Mechanism available to improve the preparation

Financing modalities

Project
readiness
financing
(PRF)

TRTA

Small
Expenditure
Financing
Modality
(SEFF)

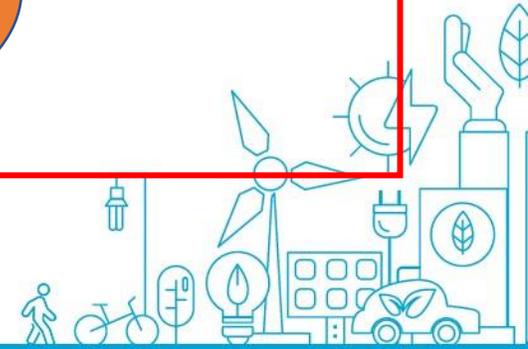
Tools and techniques

Strategic Procurement
Planning (SPP)

Advance
Contracting

Project and procurement arrangement

Retroactive
financing



Project and procurement arrangement: Advance Contracting

Benefits

- Borrower can proceed with the initial steps of procurement before signing the related financing agreement following the agreed procurement arrangements.
- Borrower can proceed up to the contract negotiation i.e., before a signing of contract
- Consultants and contractors can be mobilized immediately after the loan signing

Reminders

- Advance contracting is at the borrower's own risk
- Borrower needs to publish that the project will use advance contracting
- Bidding process will be subject to ADB's prior review



Project and procurement arrangement: Retroactive financing

Benefits

- **ADB loan (grant) can reimburse eligible expenditure incurred by the borrower prior to the effective date of the related loan agreement**
- **Contract implementation can happen even before the loan effective**
- **Immediate disbursement after the loan effectiveness**
- **Facilitate quick project implementation, particularly for the Emergency Assistance Projects**

Reminders

- **Any concurrence by ADB does not commit ADB to finance the project in question**
- **Normally up to 20% of the total loan amount***
- **Not earlier than 12 months before the signing date of the agreement***
- **Capacity assessment on the procurement and disbursement**
- **Procurement needs to comply with the advance contracting requirements**

*The requirements are relaxed for the Emergency Assistance Projects.



Tools and Techniques: SPP

Project Concept

- Project development objectives
- Project description and categorization
- Indicative contract packages

Operating Environment

- Borrower capacity and capability assessment
- FCAS Considerations
- Support requirements
- External influences
- Stakeholder and communication strategy

Market Analysis

- Data collection and analysis
- Supply positioning
- Supplier preferencing

Sustainable Procurement

- Consider where appropriate

Risk Management

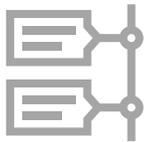
- Country and sector/agency procurement risk assessment
- Project procurement risk assessment
- Risk register



Analysis

Options Analysis

- Identify strategic options
- Evaluate strategic option
- Strategy selection



Choices

Procurement Strategy

- Procurement methods
- Bidding procedures
- Contracting strategy
- Strategic procurement planning template
- Procurement plan template



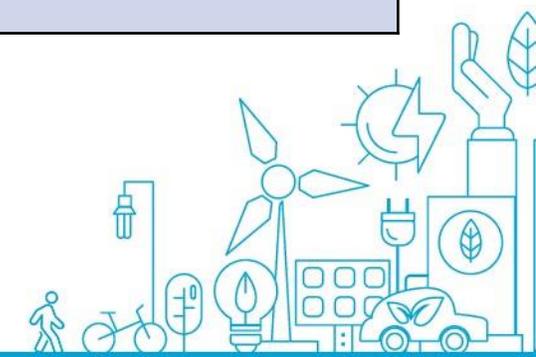
Document /
Planning



What is the current use of advance action?

Current Situation	Possible action
<p>Limited use of TA loan (now replaced with PRF) TA loan helped Indonesia to prepare multiple projects to prepare FS, DED, and safeguards assessment</p>	<p>Wider use of PRF and SEFF</p>
<p>Use of advance contracting is limited to emergency project or in Indonesia a project with a SOE Procurement process mostly start only after loan negotiations, or even loan effectiveness</p>	<p>Procurement process (up to bid evaluation) can be done after loan Fact Finding Mission</p>
<p>First year(s) of project implementation is spent for a selection of a project management consultant and start procurement process → project delay, increased commitment charges</p>	<p>Even without retroactive financing, the EA/IA can sign a contract immediately after loan agreement is signed, and the work can commence soon after → On-time project delivery</p>

Note: Advance Procurement Action is referred to as Advance Contracting in the ADB documents.



Key questions for incoming group discussion:

What are the constraints Executing Agencies are facing in taking Advance Procurement Actions for projects to be funded by ADB and how to overcome these constraints?



*Thank
you*

